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FM USEU BRUSSELS
TO RUEHC/SECSTATE WASHDC IMMEDIATE
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE IMMEDIATE
RUEHRL/AMEMBASSY BERLIN IMMEDIATE
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 04 BRUSSELS 001380

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E.O. 12958: DECL: 04/24/2017
TAGS: [PREL](#) [ECON](#) [ENRG](#) [EU](#) [PGOV](#)
SUBJECT: SCENE-SETTER FOR U.S.-EU SUMMIT

Classified By: USEU CDA MCKINLEY FOR REASONS 1.5(D) AND (E)

¶1. (C/NF) Summary: The April 30th U.S.-EU Summit should ratify an important economic package with positive messages for our improved economic and political relationship. This is Chancellor Merkel's Summit, and EU officials coming to Washington will be conscious that they are playing more of a second fiddle role to the Presidency than they are accustomed to. The Summit should also demonstrate that on the key foreign policy issues, transatlantic cooperation is in very good shape. Despite lingering disputes on energy and climate issues, there is broad agreement between us that these need to be treated as part of an integrated package.

¶2. (C/NF) The early date of this year's Summit allows us something that has been lacking in the past: immediate follow up with the same EU Presidency. We should take the opportunity for real-time reviews of next steps on Iran sanctions, Sudan, and Kosovo where European cooperation is essential as more difficult decisions loom. This year, with two months available before Europe's summer break, we also have the chance to reinforce the transatlantic economic partnership and energy/climate pieces with specific and targeted events and meetings. It will be important for key U.S. and EU regulatory officials to meet to establish the regulatory work plan and decide how to approach the specific objectives laid out in the Summit. On the energy and climate side too, we need to build on the cooperation established over the past two years. Finally, Europeans have celebrated fifty years of remarkable achievements through the EU, but are less clear on what the future holds. Capitalizing on their desire to exert influence on a global stage, we have the opportunity to project a compelling message of unity on the critical issues before us. End summary.

Germany's Summit

¶3. (C/NF) Much more than is usually the case, this is the presidency country's Summit. That reflects not only how much Merkel has taken charge of both the ideas and the process, but more broadly the reality that the entire German presidency has been perceived as muscular, and, on occasion, exclusionary when the Germans felt the need. This is particularly true at Brussels senior staffing levels, where contacts have complained of being steam-rolled on German foreign policy goals, such as the development of a new Central Asia strategy. Others have been irritated at being virtually cut-out of the U.S.-EU summit preparations, with Permreps complaining that they did not even see the declaration drafts until last week, while a Commission source noted that the German tactic of running the Summit statements on three separate tracks had made it harder for the other EU

institutions to shape the outcome.

Ruffling feathers but respected nonetheless

¶4. (C/NF) Bruised feelings aside, however, we mostly hear high praise for what the German presidency has actually accomplished. Top of that list is the sense that the U.S.-German relationship is back on track, something which all here recognize will pay dividends for the EU as a whole. Second, our contacts credit Merkel with a shrewd choice in focusing on the economic partnership as the new centerpiece for transatlantic relations at the Summit. It offers a way to both improve relations with the U.S. in general and lay the foundations for a more efficient transatlantic market in particular. Further, the Germans appear on track to produce a U.S.-EU Summit that will, as one contact noted, "for the first time in awhile, have some really meaningful deliverables". Third, our contacts admit that the Germans have mostly pushed EU foreign policy in a productive direction (for example, the new Central Asia strategy is a long-overdue rethinking of the EU's relationship with its eastern neighbors). Indeed, there is a general recognition that the Germans, thanks to their deep bureaucratic bench, have run the myriad EU meetings and troikas with remarkable effectiveness (a strong managerial hand has been particularly important in keeping the internal Kosovo debate on track).

¶5. (C/NF) All of this gives Merkel a strong hand coming into the Summit -- and potentially for the follow-up beyond. Thus, other EU leaders will come to Washington conscious that this is really more Merkel's Summit than theirs, but nevertheless pleased with the overall results. Indeed, already some sources are beginning to worry about the ability of the Portuguese to pick up the German baton in July.

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The foreign policy relationship: in strong shape

¶6. (C/NF) For many Brussels foreign policy thinkers, U.S.-EU cooperation has never been better. The key new development of 2007, from their perspective, has been the reemergence of a robust MEPP process and, in particular, the reinvigoration of the Quartet. Although we hear this across the board, Commission sources, traditionally the most impatient for movement on the peace process, have been especially effusive in praising the Secretary's engagement in the process. In turn, the public perception of a new peace process -- one in which the EU has a visible role -- has strengthened Brussels' ability to resist the pressures of (certain) member states to engage the NUG and Hamas more directly. In fact, at the recent Gymnich, it was Commissioner Ferrero-Waldner who reportedly knocked back several foreign ministers impatient to go beyond Quartet principles.

¶7. (C/NF) On almost all other foreign policy issues as well, the Brussels' perspective is that U.S.-EU cooperation is as close or closer than it was a year ago. On Iran, the EU is breathing a collective sigh of relief that the 27 held together on sanctions implementation, and have moved further toward reducing export credits to Iran than most had thought likely. (Although the German EU Presidency continues to avoid EU-wide consideration of a cessation of export credits and other economic measures -- fears of a loss of business to Russia and China loom large in this regard.) Although Brussels and Berlin remain on the same general line with respect to Iran with the EU's so-called "double track" approach of sanctions and dialogue, the recent dust-up over Iran's detention of UK military personnel served to swing the EU toward a tougher policy line against Tehran.

¶8. (C/NF) On Kosovo, key EU players are similarly pleased with what the U.S. and the EU have accomplished together. Though just as clearly worried about holding the 27 together,

and aware that it will be the EU's job to knock heads among wavering member states, they do believe that the very high degree of U.S.-EU dialogue has made that job easier. On Russia, the EU (in particular Germany) seems to be moving closer to our analysis (though the implications for energy policy and greater EU proactiveness on the frozen conflicts still seem distant). On Afghanistan, the EU is proud it has put together the police training mission so quickly (though conscious we would like to see more). On Sudan, the EU is edging closer towards a sanctions perspective, though here too not as quickly as we would like. Somalia is one potential note of EU unhappiness, as the EU institutions believe that the U.S. could have pushed the TFG harder towards national reconciliation.

Economic issues

¶9. (C/NF) On the economic side, this Summit really should mark a key change from previous ones, not so much for the content but because of the political force behind it. Breaking down remaining barriers and improving the functioning of the transatlantic marketplace are ideas that have been around for a while. But Merkel's political push, and the focus now on improving and reducing regulatory burdens, give new and useful emphasis to the practical steps needed to achieve long-sought goals. It is important to keep in mind two of the factors influencing the Chancellor. One is geopolitical, which is to use success in the transatlantic partnership to counterbalance the stance of her coalition partners, who are less critical of Russia and more critical of us. The second is to have the U.S. help the EU deregulate, an objective which cannot be emphasized too publicly in the EU, but which nevertheless is a strong factor in Merkel's thinking. The Summit should also give the U.S. a tool to face down the EU as they try to build a role as the de facto global regulator, with the excesses of the chemical regulation REACH as the most obvious example. Finally, in order to see this through, it will be important to make progress on realizing the ideas featured at the Summit within the next two months. Near-term follow-through should also be an outcome of this Summit, with a focus on achieving some quick successes on regulatory reforms with the involvement of the U.S. Congress.

¶10. (C/NF) It is important in all the talk of this economic partnership not to lose sight of completing the Doha round, and we have been emphasizing to our contacts in the business community that the Merkel initiative is a complement to Doha.

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While this distinction often gets lost in the press here, we should be able to clarify this at the Summit.

¶11. (C/NF) The major unresolved issue for the Summit as we write is how to handle the energy and climate statement. The Germans and the Commission are aligned in wanting a robust statement on the dangers of climate change and on the need for launching a new international agreement. They want to lay a foundation for the G8 Summit in June and tell us that the "European public" needs to see something new in a U.S.-EU Summit document. These issues will have to be resolved in the course of this week. On the plus side, there is a new acknowledgement in Brussels that energy and climate issues need to be dealt with together. This gives us a lot to work with because it allows us to promote our results-based agenda on climate and energy.

¶12. (C/NF) On the energy and climate statement, it is a mark of progress in the U.S.-EU relationship that we are clearly dealing with these issues in an integrated way. The EU's spring Council ratified a joint approach to energy and climate issues, greatly pushed by Merkel. We have developed practical cooperation with the Europeans on energy matters over the past two years with the idea that whatever we do also has positive implications for our relationship on

climate issues. Commission officials understand that the real reductions of greenhouse gas emissions will come from increased energy efficiency, the development of new technologies and improvements in regulatory policy. They also see the need to develop a comprehensive international approach, enshrined in some sort of post-Kyoto framework, which would allow them to internationalize some of the commitments they have taken on themselves. This means engaging China and the developing world, something many leading Europeans say privately, if not publicly. Europeans should be reminded that the need to engage China is fully bipartisan in the U.S.

The home stretch of the German presidency

¶13. (C/NF) The German Presidency is a good example of what can happen when a large member state puts its political muscle behind its Presidency, rather than act like an impartial broker, as the UK tried to do in 2005. With the European project at a bit of standstill -- new leadership in the large member states yet to take office and the future of the Constitution in limbo -- the EU can use the help of key governments to propel it forward. That means redefining the debate on integration, future enlargement, and the European response to globalization. It is fortunate that Merkel used her influence to focus on building the transatlantic economic relationship during Germany's six-month Presidency. Recognizing that we can do more to build the transatlantic marketplace by improving regulation on both sides of the Atlantic is an important insight widely supported by the business community. We anticipate that PNR and visa waiver questions will be raised, but not as central topics of discussion. The Summit should also provide an opportunity to cement our excellent cooperation on Iran in particular. Cooperation on PNR, visa waiver, SWIFT, and Iran illustrate the high-level of commonality on counter-terrorism issues, notwithstanding the adverse press on Guantanamo and renditions.

¶14. (C/NF) That the Summit is occurring so early in the Presidency also affords us a unique opportunity to kick-start the early implementation of Summit commitments. On the economic side, this will be relatively easy: the Presidency will be looking to work closely with us in the remaining months to move forward on its highest priorities. On the other hand, second tier priorities risk being triaged away as the Presidency (and the entire EU) becomes increasingly focused on the Constitution issue. In this context, we suspect that we will have to work harder to ensure that many foreign policy priorities, including Russia, the frozen conflicts, and Iran, continue to receive the attention they have in recent months. The likely successes on the economic and energy/climate at the Summit, should not obscure the importance of producing similarly strong messages on U.S.-EU political cooperation on the critical issues before us. High Representative Solana and, to a lesser extent External Relations Commissioner Ferrero-Waldner, will remain indispensable in helping form European consensus on difficult questions regarding Iran, the Middle East, and Sudan (to name a few issues), once the German Presidency is behind us. Merkel has delivered for the six months she sat in the Presidency: ensuring implementation will come down to the EU

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institutions and U.S. institutions as well. The Germans will stay with the economic integration issues through the next two Presidencies. We must also do our part.

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